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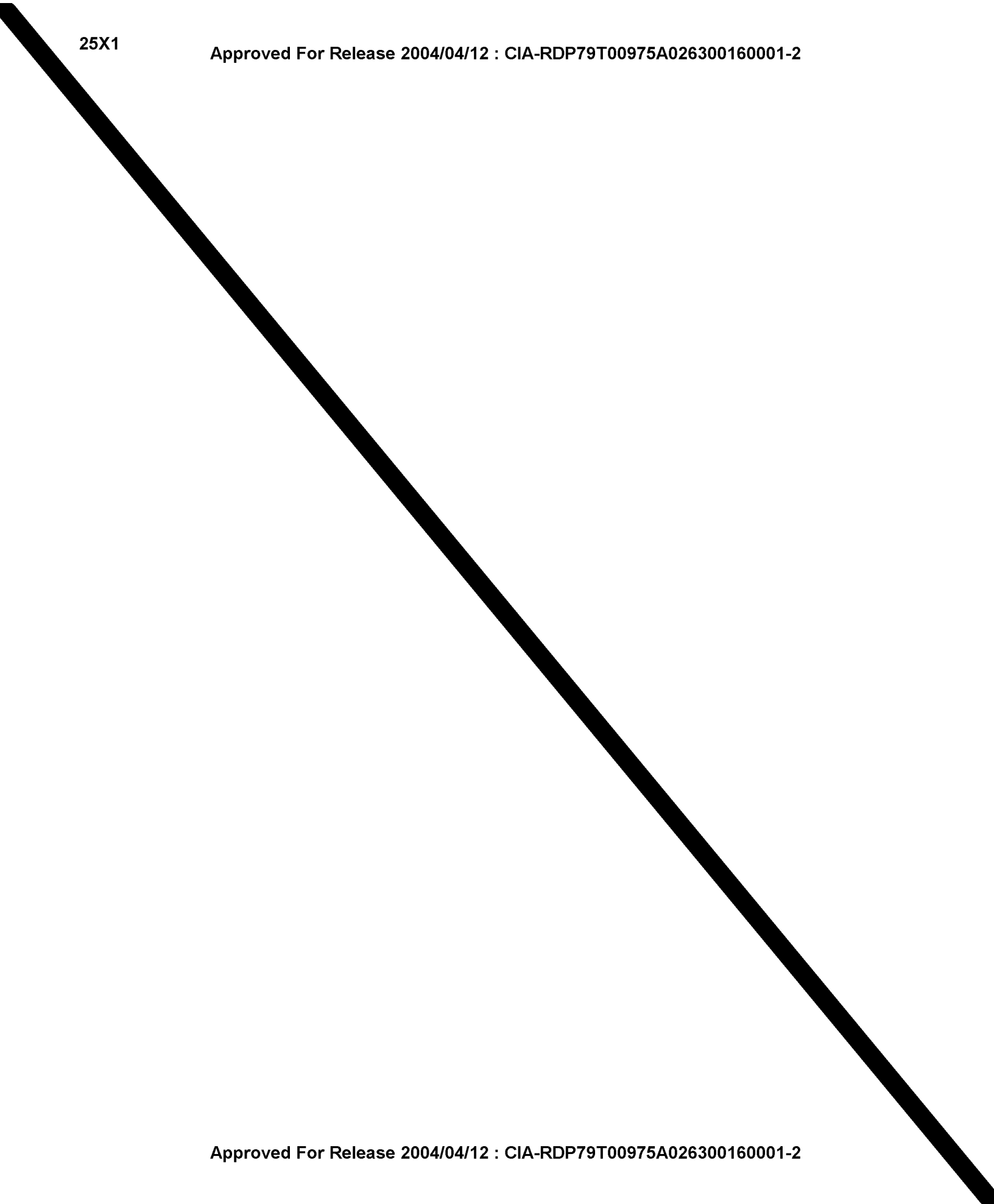

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EGYPT-USSR: In recent press interviews President Sadat has compared the Soviet Union unfavorably with the United States, and he may be planning to sharpen his criticism of the Soviets in a major speech next week. Sadat's actions highlight the downturn in Soviet-Egyptian relations since the October war and the subsequent initiation of US-Egyptian efforts to achieve a Middle East settlement.

A journalist close to Sadat, Ali Amin, predicted in a Middle East News Agency dispatch from Yugoslavia yesterday that Sadat, after he returns to Cairo from his talks with President Tito, will "unveil political secrets connected with the behavior of certain big powers" in a speech he is to deliver next week. An "important decision" is to be announced at the same time, according to Amin.

In an interview with the BBC, Sadat praised the "radical change" for the better in the US attitude toward peace in the Middle East, expressed hope for better relations with Britain, and gave a temporizing reply to a leading question on the "ambiguity" of relations with the Soviets. The interview was carried by MENA, as was a second interview with a Lebanese journalist in which Sadat charged that the Soviets had attempted to deceive him about alleged Syrian desires for a cease-fire on the opening night of the October war.

Soviet-Egyptian relations have reached the lowest point since the expulsion of Soviet military advisers in 1972. The Soviets, who were upset at having been excluded from the negotiations for the Egyptian-Israeli disengagement, have been increasingly critical of Sadat's friendly gestures toward the US and his interest in Western economic assistance and investment. Moscow has criticized Sadat's claims that US policy toward the Middle East has changed and more recently condemned the decision to lift the oil embargo on the US, a decision called for and supported by Sadat.

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CHINA: The current political turmoil may have claimed its first high-ranking provincial victims. 25X1 political wall posters condemning by name the top two party and government leaders in Shansi Province.

The posters called on people to carry out "the Central Committee's directive" on Shansi and to "strike down" Hsieh Chen-hua and Tsao Chung-nan. Hsieh and Tsao are probably being blamed for promoting an opera called "Three Visits to Taofeng." The opera, which includes an unflattering portrayal of a character who appears to be modeled on Mao's wife, Chiang Ching, was subsequently presented at the North China Theatrical Festival in Peking. It was branded a "poisonous weed" in a People's Daily article on February 28.

Another opera, "Turbulent Beach," also has a leading female character who is presented in a bad light and who seems to portray Chiang. 25X1 25X1 a poster at a scientific institute near Peking that gave thanks to Chiang for providing "weapons" for ideological struggle, presumably a reference to the ideological material contained in the attacks on the operas.

Leaders in some other provinces may also be in jeopardy. There are indications that efforts are under way to attack leaders in Shantung Province, where "Turbulent Beach" was first presented. In Honan, it appears that a provincial leader is under attack, even though no politically objectionable operas are known to have been produced there.

The attacks on the operas seem to be an effort by Chiang Ching and her supporters to alter the force and direction of the anti-Lin, anti-Confucius campaign. If so, the vigor of the attacks on the operas and their apparent success in claiming provincial victims suggest that the Chiang Ching forces are still in a relatively strong position.

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The attacks on provincial figures may well foreshadow the eventual criticism of political figures at the center. A People's Daily article on March 27 that attacked the Shansi opera contained a warning that "whoever you are, however senior your official position,... if you do not follow Mao Tse-tung's revolutionary lines we shall strongly resist and struggle against you vigorously." [redacted] 25X1

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INTERNATIONAL MONETARY DEVELOPMENTS: Increasing pressure on the European joint float is likely to force a re-examination of the European parity structure.

Substantial intra-float intervention was required yesterday as the mark--strengthened by repeated rumors of imminent revaluation--threatened to breach the upper limits of the narrow European currency band. The Bundesbank was forced to purchase the equivalent of $200 million in Dutch guilders, Danish crowns, and Belgian francs. Total German intervention since March 20 now totals almost $800 million. Bonn withheld official announcement of the record $1.8 billion February trade surplus in an effort to avoid creating further upward pressure on the mark.

Continuing internal pressure among joint float currencies could force a review of present currency alignments, especially among the mark, guilder, and Belgian franc. The Belgians, concerned about the competitiveness of their exports, do not want their currency to appreciate relative to the currencies of trading partners outside the float. The Bundesbank seems determined to maintain a tight money policy, despite Minister of Finance Schmidt's concern with rising unemployment and Germany's commitment to the currency band.

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NATO: At an informal meeting this week, a substantial majority of the NATO permanent representatives expressed support for proceeding with work on the US-NATO declaration, regardless of action on the US-EC declaration.

Belgian NATO Ambassador de Staercke, who is known to be concerned about the EC Nine's political consultations "dominating" NATO efforts, noted that Secretary Kissinger has proposed three options for dealing with the two Atlantic declarations--dropping work on both documents, proceeding with both, or proceeding with only the US-NATO declaration--and urged selection of the third option.

Secretary General Luns agreed, noting that the original US invitation for an Atlantic declaration was addressed to all NATO members, and that only later did the EC Nine decide that there should be a separate declaration on US-EC relations. The West German, Italian, Norwegian, Dutch, Turkish, and Greek ambassadors all weighed in with support for De Staercke.

West German leaders agree with UK Foreign Minister Callaghan that the fifteen should try to complete work on the US-NATO declaration in time for signature by the foreign ministers at a meeting in April, which will also commemorate the 25th anniversary of NATO.

Only the French and Danish ambassadors questioned the wisdom of De Staercke's proposal at the meeting this week. The French representative maintained that work on both documents ought to be terminated, since the US had originally proposed the declarations and had now indicated that it was willing to abandon the effort. He stated, however, that he was prepared to report the views of the majority to Paris. The Danish representative stated that he personally felt the fifteen could proceed with their declaration only if this did not prejudice the action of the EC Nine.

Luns has asked the fifteen ambassadors to request formal agreement from their governments for the North Atlantic Council to continue work on the declaration.

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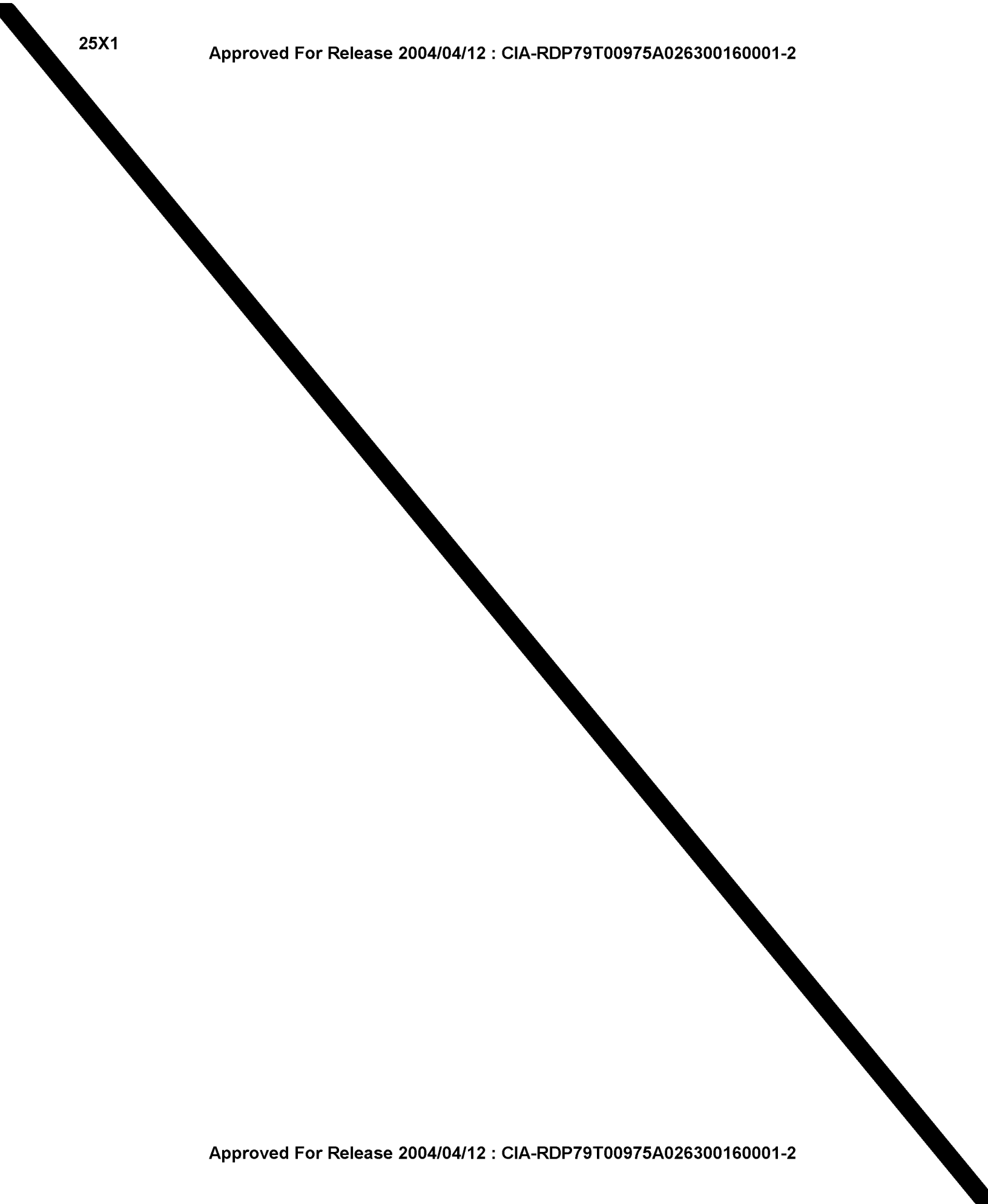

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BRAZIL: President Geisel's blocking of an aspirant to the governorship of a key Brazilian state raises questions about the extent of the new government's commitment to a modest political liberalization.

For some time it has been widely known that former finance minister Delfim Netto, author of Brazil's "economic miracle," hoped to run for governor of his home state, Sao Paulo. The new administration, however, named another former minister as its official candidate. To underscore his opposition to Delfim's candidacy, Geisel proposed a draft law that would reduce the already limited role of the political parties in naming gubernatorial candidates. This move proved sufficient to deprive Delfim of whatever overt support he already had among politicians. The regime also may have signaled its displeasure with a leading Sao Paulo newspaper that has supported Delfim editorially by reaffirming full-scale censorship.

Even though Delfim is widely acknowledged as the architect of much of the country's recent economic success, opposition to his ambitions is strong, primarily among military leaders. While he is resented for a number of minor reasons, the fundamental fear of many officers is that should Delfim win such an important governorship, he would gain sufficient political strength to challenge the military's control of the political system.

The principal civilian support for the government comes from the powerful Sao Paulo business community, which holds Delfim in high regard. While blocking his candidacy could conceivably engender some resentment among Sao Paulo businessmen, they are not likely to react very strongly as long as their economic prospects are bright.

The move to block Delfim has signaled that, despite talk of a democratic opening, the government is still authoritarian and will firmly lay down the rules by which the participants it selects must play.

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ARGENTINA: Peronist labor, business, and government leaders have reached an agreement on wage and price increases to go into effect April 1.

The minimum wage will rise 30 percent, and for those above the minimum there will be an increase of 13 percent. Bonuses also will be increased and all workers will be covered by employer-paid life insurance policies.

The settlement includes selected price increases, such as a near doubling in the price of regular gasoline to $1.15 per gallon. Smaller increases for electricity, transport, and other public services will be instituted. The prices of most goods, however, are to be kept at their presently frozen levels with only minor adjustments.

The wage settlement was resisted by Peronist economic advisers, who viewed any across-the-board increase as a major setback to the regime's anti-inflationary program. The issue was forced, however, by widespread labor unrest that threatened to erode Peron's power base.

Corporate profits, already down for nine months, will be further squeezed by the increased wage bill. Domestic as well as foreign investors will probably be reluctant to put up new capital as long as Peron continues to sacrifice economic policy to political expediency. 25X1

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NIGERIA: Lagos has announced a new move to accelerate steps to increase government control of the oil industry.

In a meeting with representatives of Gulf and Mobil on Tuesday, the permanent secretary of the Nigerian Ministry of Mines and Power proposed 55-percent government participation in the operations of both companies. This would become effective April 1, with compensation based on updated book value.

The Nigerian official made clear that the same terms will be applied to other foreign oil firms operating in Nigeria. The announcement, while considered moderate by the companies, represents a shortened timetable for Nigerian control of the oil industry. In its last participation agreement, concluded with Shell-BP in mid-1973, Lagos took only 35-percent control; this was to increase to 51 percent by 1982. The government holds 33 and 35 percent ownership in the two other major producers and has agreements to take 51-percent equity in all new concessions when oil is found in commercial quantities.

Participation and royalty oil available for sale by Lagos could total 570,000 barrels per day for the next 12 months when the 55-percent agreements are concluded with all six foreign producers and if--as is likely--the companies exercise their buyback options.

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